

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2135 - HB 2189

March 21, 2022

SUMMARY OF BILL: Phases out the occupational privilege tax on all occupations subject to the \$400 annual tax by reducing the tax by \$100 per year over the next 4 years.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$19,993,400/FY22-23
\$39,986,800/FY23-24
\$59,980,100/FY24-25
\$79,973,500/FY25-26 and Subsequent Years

Decrease State Expenditures - \$206,400/FY22-23
\$412,800/FY23-24
\$619,200/FY24-25
\$825,600/FY25-26 and Subsequent Years

Increase Local Revenue - \$61,500/FY22-23
\$123,000/FY23-24
\$184,500/FY24-25
\$246,000/FY25-26 and Subsequent Years

Assumptions:

- Taxes for tax year ending May 31, 2024 are due on June 1, 2023; therefore, the first-year impact will be in FY22-23.
- According to the Department of Revenue (DOR), there were 201,441 occupational privilege taxpayers in FY20-21. This number is assumed to remain constant in perpetuity.
- The decrease in state revenue is estimated to be \$20,144,100 [(201,441 x \$400) – (201,441 x \$300)] in FY22-23, \$40,288,200 [(201,441 x \$400) – (201,441 x \$200)] in FY23-24, \$60,432,300 [(201,441 x \$400) – (201,441 x \$100)] in FY24-25, and \$80,576,400 (201,441 x \$400) in FY25-26 and subsequent years.
- For government employees that are subject to the occupational privilege tax, the agency they work for will pay the \$400 fee.
- Based on information from the Department of Human Resources, it is estimated that the state pays for 2,064 persons that would be exempt under the proposed legislation.

- The decrease in state expenditures beginning is \$206,400 $[(2,064 \times \$400) - (2,064 \times \$300)]$ in FY22-23, \$412,800 $[(2,064 \times \$400) - (2,064 \times \$200)]$ in FY23-24, \$619,200 $[(2,064 \times \$400) - (2,064 \times \$100)]$ in FY24-25, and \$825,600 $(2,064 \times \$400)$ in FY25-26 and subsequent years.
- Based on information from DOR, 77.59 percent (156,294 out-of-state / 201,441 total) of taxpayers in these occupations are estimated to be out-of-state.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent
- Fifty percent of tax savings from in-state taxpayers, net of the amount paid by the state on behalf of such taxpayers, or \$2,234,019 $\{[(\$20,144,100 - \$206,400) \times (1-.7759)] \times 50\%$ } will be spent in the economy on sales-taxable goods and services in FY22-23, \$4,468,039 $\{[(\$40,288,200 - \$412,800) \times (1-.7759)] \times 50\%$ } in FY23-24, \$6,702,058 $\{[(\$60,432,300 - \$619,200) \times (1-.7759)] \times 50\%$ } in FY24-25, and \$8,936,077 $\{[(\$80,576,400 - \$825,600) \times (1-.7759)] \times 50\%$ } in FY25-26 and subsequent years.
- The increase in state sales tax collections is estimated to be \$150,725 $[(\$2,234,019 \times 7.0\%) - (\$2,234,019 \times 7.0\% \times 3.617\%)]$ in FY22-23, \$301,450 $[(\$4,468,039 \times 7.0\%) - (\$4,468,039 \times 7.0\% \times 3.617\%)]$ in FY23-24, \$452,175 $[(\$6,702,058 \times 7.0\%) - (\$6,702,058 \times 7.0\% \times 3.617\%)]$ in FY24-25, and \$602,900 $[(\$8,936,077 \times 7.0\%) - (\$8,936,077 \times 7.0\% \times 3.617\%)]$ in FY25-26 and subsequent years.
- The increase in local sales tax collections is estimated to be \$61,507 $[(\$2,234,019 \times 2.5\%) + (\$2,234,019 \times 7.0\% \times 3.617\%)]$ in FY22-23, \$123,014 $[(\$4,468,039 \times 2.5\%) + (\$4,468,039 \times 7.0\% \times 3.617\%)]$ in FY23-24, \$184,520 $[(\$6,702,058 \times 2.5\%) + (\$6,702,058 \times 7.0\% \times 3.617\%)]$ in FY24-25, and \$246,027 $[(\$8,936,077 \times 2.5\%) + (\$8,936,077 \times 7.0\% \times 3.617\%)]$ in FY25-26 and subsequent years.
- The net decrease in state revenue as a result of this legislation is estimated to be \$19,993,375 $(\$20,144,100 - \$150,725)$ in FY22-23, \$39,986,750 $(\$40,288,200 - \$301,450)$ in FY23-24, \$59,980,125 $(\$60,432,300 - \$452,175)$ in FY24-25, and \$79,973,500 $(\$80,576,400 - \$602,900)$ in FY25-26 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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